

Distinguishing between earned and unearned income

Students play a game to help them learn the difference between earned and unearned income.

Learning goals

Big idea

Even though income often comes from money people make at their jobs, income can also come from other sources like allowances, awards, gifts, investments, and prizes.

Essential questions

- What's the difference between earned and unearned income?
- Why do I need to know the difference between earned and unearned income?

Objectives


- Compare and contrast earned and unearned income
- Provide examples of each type of income

What students will do

- Explore the difference between earned and unearned income.
- Play a game to practice distinguishing between the two types of income.

KEY INFORMATION

Building block:

 Financial knowledge and decision-making skills

Grade level: Middle school (6–8),
High school (9–12)

Age range: 11–19

Topic: Earn (Making money,
Getting paid)

School subject: CTE (Career and technical education), English or language arts, Physical education or health

Teaching strategy: Gamification

Bloom's Taxonomy level: Understand,
Apply

Activity duration: 15–20 minutes

STANDARDS

Council for Economic Education
Standard I. Earning income

Jump\$tart Coalition
Employment and income - Standard 2

Preparing for this activity

- ☐ Review the definition of earned and unearned income.
- ☐ Print the “Income ball toss” questions for students (in this guide) or access them electronically to read aloud to the students.
- ☐ Get a light, medium-sized ball that students can toss to each other.

What you’ll need

THIS TEACHER GUIDE

- Distinguishing between earned and unearned income (guide)
[cfpb_building_block_activities_distinguishing-earned-unearned-income_guide.pdf](#)

STUDENT MATERIALS

- “Income ball toss” questions for students (in this guide)
- A beach ball, volleyball, soccer ball, or other light ball

Exploring key financial concepts

There are two ways to make money. People earn an income when they’re hired to work. People can also receive income even if they don’t work for pay. This type of income is known as unearned income. Two examples of unearned income you might be familiar with are money you get as a gift for your birthday and a financial prize you win. Other examples of unearned income include unemployment benefits and interest on a savings account. Recognizing the difference between earned and unearned income is an important step in building your financial capability. Earned income is usually subject to federal and state income taxes, while unearned income may or may not be.

TIP

Because definitions and laws related to income can change, students should be encouraged to always look for the most up-to-date information.

Teaching this activity

Whole-class introduction

- Explain that there are two types of income: earned or unearned.

- Be sure students understand key vocabulary:
 - **Earned income:** Money made from working for someone who pays you or from running a business or farm. This includes all the income, wages, and tips you get from working.
 - **Unearned income:** Income people receive even if they don't work for pay. Can include things like children's allowances, stock dividends paid by corporations, and financial gifts.
- After taking a couple of minutes to build their background knowledge, explain that they'll play a game to help them learn the difference between earned and unearned income.

TIP

Visit CFPB's financial education glossary at consumerfinance.gov/financial-education-glossary/.

Group work

- Introduce the game to your students. Explain that you'll toss the ball to a student and describe a type of income listed on the "Income ball toss questions" sheet.
- The student then must say whether they think it's earned or unearned income.
 - If they answer correctly, they must explain their answer, toss the ball to someone else, and then sit down.
 - If they get the answer wrong, they'll toss the ball to another student and ask them to explain why the other answer is correct.
 - The original student will sit as the new student explains the answer.
 - If you think the student provided a good explanation, he or she will then toss the ball to someone else and sit down.
 - If you think the answer wasn't sufficient, the student will toss the ball to a classmate, ask them to explain the answer, and then sit down.
- As correct answers and explanations are given, students will continue to toss the ball to their classmates until all of the questions have been asked or all students are sitting.
- The question sheet includes the answers and an "Expanding understanding" section you can use to add to the discussion.

Wrap-up

- If there's time, ask students to share some things they learned from this game.

Suggested next steps

Consider searching for other CFPB activities that address the topic of earning, including making money or getting paid.

Measuring student learning

Students' answers can give you a sense of their understanding.

The question sheet also serves as an answer guide with possible answers for the game. **Keep in mind that students' answers may vary, as there may not be only one right answer.** The important thing is for students to have a reasonable justification for their answers.

Income ball toss questions

Print one copy of these questions to read aloud during the game. Feel free to share the information in the “Expanding understanding” section to add to the discussion.

Question	Answer	Expanding understanding
1. You receive \$40 for your birthday. This is an example of what type of income?	Unearned income	Gifts are unearned income because people do not work to receive them.
2. A salary that someone earns at work is an example of what type of income?	Earned income	Earned income includes wages, salaries, tips, and self-employment earnings you get from working. There are two ways to get earned income: You work for someone who pays you or you own or run a business or farm.
3. A bonus at the end of the year for doing a great job at your work is an example of what type of income?	Earned income	A bonus is extra pay that an individual receives for working. This is a type of earned income.
4. If you're a waiter or waitress who makes tips, the tips are an example of what type of income?	Earned income	Waiters and waitresses work to earn tips as well as their regular pay. Tips are a type of earned income.
5. You receive a weekly allowance. This is an example of what type of income?	Unearned income	A child's allowance is considered unearned income because it's not pay for work.
6. Someone loses their job and collects unemployment benefits; those benefits are an example of what type of income?	Unearned income	Unemployment benefits are an example of income that is not earned.
7. An hourly wage made at a summer job is an example of what type of income?	Earned income	Earned income includes wages, salaries, tips, and other employee pay.
8. The interest you earn on your savings account is an example of what type of income?	Unearned income	Interest and dividends are examples of income that is not earned.